

Discussion on the Way to Improve Tax Compliance in China's Tax System Reform

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Abstract

Under the traditional research paradigm, tax compliance is regarded as an important content of tax collection and management, which is more based on the perspective of mainstream economics, and less tax compliance is considered from the perspective of taxation system and behavioral finance. At present, my country's tax system structure is in the climax of reform. Based on the perspective of behavioral finance, through combing the theoretical framework and mechanism of tax system reform, behavioral finance and tax compliance, analyze tax compliance in the process of tax system formulation, implementation, and supervision It is recommended that tax compliance should be improved by simplifying the tax system, paying attention to the certainty and fairness of the tax system, making full use of the big data platform, gradually improving taxpayers' system compliance, technical compliance, voluntary compliance, and gradually establishing a mental account for independent tax payment.

Keywords

Tax System Reform; Behavioral Finance; Tax Compliance; Path Discussion.

1. Introduction

Under the modern economic system, the economy determines taxation, and taxation reflects the economy. Taxation is a barometer of the economy. In 2002, my country first proposed the concept of "Tax Law Compliance" in the "Outline of China's Tax Collection and Management Strategic Planning 2002-2006". Since then, tax compliance has become one of the important contents of tax collection and management in my country, preventing tax evasion from harming government revenue. With the continuous improvement of the level of economic and social development, my country's tax system reform has gradually improved, from indirect tax-based taxation to direct tax-based tax structure. Some scholars have pointed out that tax non-compliance under the direct tax system is more serious than tax evasion under the indirect tax system. The reason is that the direct tax burden is not easy to pass on, and the "tax burden" is more obvious. Tax avoidance through methods and even tax evasion, tax evasion, tax resistance and other tax non-compliance behaviors. Therefore, in the process of my country's tax reform, tax compliance will be one of the main issues facing the tax reform. This article starts from this, based on the perspective of behavioral finance, analyzes my country's current tax compliance status by combing its theoretical framework and research methods, and on this basis, discusses feasible ways to improve tax compliance in tax reform.

1.1 The relationship between tax system reform and tax compliance

Tax system reform refers to the country's timely reform of the tax system in accordance with changes in the economic, social, and political environment, so as to continuously improve and play the role of the tax system. Since the Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China, gradually increasing the proportion of direct taxes has become the basic goal of my country's tax system reform. The research on taxation reform's tax compliance is mainly divided into three perspectives. First, from the perspective of tax system structure, Liu Chengkui and Li Jiyuan (2016)^[1] found through empirical test results from the perspective of tax system structure that the proportion of direct taxes, tax audits and There is a positive correlation between tax compliance, and it is also found that the direct tax system is more profitable for taxpayers than the indirect tax system. The higher the tax inspection, the higher the taxpayer's tax evasion cost, and the

more helpful it is to improve the taxpayer's Compliance. Ma Haitao et al. (2020)^[2] believe that my country's economic development and the improvement of tax system collection and management have put forward new requirements for my country's tax system structure. Increasing the proportion of direct taxes such as property tax and income tax is the development direction of the future tax system structure. However, there must be Raise the proportion of direct taxes step by step, especially without increasing the tax burden. Therefore, many scholars believe that the tax burden of indirect taxes should be reduced by reducing taxes and fees, conserving tax sources, expanding the tax base, and then increasing the proportion of direct taxes. Second, from the perspective of tax types, Li Yihua, Dong Yang, and Li Xiuling (2010)^[3] studied the influencing factors of tax compliance from the perspective of personal income tax payment ability, and found that personal income is divided into actual income ability and potential income ability, and the potential Under the influence of income ability, the personal tax loss rate of Chinese residents is relatively serious. The main reasons are information asymmetry, mismatch between taxation rights and income rights, inefficiency of the tax system and low taxpayer compliance. Third, from the perspective of national governance, Gu Cheng and Yu Yang (2018)^[4] promote tax compliance path selection under the framework of modern national governance, pointing out that simplifying the tax system and determining the certainty and fairness of the tax system will help improve tax compliance. Zheng Baofeng (2011)^[5] based on institutional economics and divided my country's current tax system into formal and informal tax systems. She believes that the complexity of the tax system in the formal tax system, high tax burden, tax structure patterns, and tax injustice will all affect tax payment. The level of awareness, and the "tax gratuitous theory", "the concept of possession of wealth" and "free-riding" in the informal tax system will also affect tax compliance.

1.2 The relationship between behavioral finance and tax compliance

Behavioral finance, with the help of the basic theories and analytical methods of behavioral economics and psychology, combined with the behavioral characteristics of finance, provides a new research paradigm for the study of public finance and fiscal decision-making, tax compliance and other issues. McCaffery, Slemrod (2006)^[6] was the first to form a framework system for behavioral finance, which outlined the analysis framework of behavioral finance from the three perspectives of form elements, time elements, and compliance elements, and from the perspective of advancement theory, framework theory, and psychology Accounts and other theoretical studies on the factors affecting tax compliance. The representative of Western deterrence theory, Grasmisk, Scot (1982)^[7] found from the perspective of psychological expectations that tax evaders' understanding of the corresponding punishment that may be received is strongly related to expectations. When the threat of punishment increases, the tendency to tax evasion will also increase. Decrease, otherwise it will increase. Domestic scholars Chu Deyin and Han Yiduo (2016)^[8] theoretically analyzed the factors affecting tax compliance based on the utility theory, frame of reference theory, and framework theory of behavioral economics. The role of social justice, pay attention to conserving tax sources, expanding the tax base, and do not easily increase the marginal tax rate; in the process of promulgating laws and regulations, pay attention to the role of the framework effect, pay attention to the socioeconomic background, and pay attention to the statement and expression of the policy; in the tax implementation process, Pay attention to the mental account of taxpayers. In the process of tax system design, increase the pre-tax deduction and tax repayment under the prepayment system; in the implementation of the system, it is necessary to strengthen supervision procedures such as citizen supervision, tax supervision, and tax inspection, endowment utility and loss aversion Theory requires the government and relevant departments to formulate comprehensive penalties for violations and compliance rewards. Bai Yanfeng and Hao Xiaojing (2018)^[9] used the analysis method of behavioral finance to point out through case analysis that under the modern informatization of tax collection and management, attention should be paid to improving taxpayers' service experience and reducing compliance costs; Punish deterrence and introduce a taxpayer credit management system, advocating differentiated management of taxpayers. Huang Fengyu et al. (2017)^[10], based on the analysis of psychological effects, believe that my country's personal income tax collection and management

system should establish a prepayment system for all personal income and make the prepayment amount higher than the tax payable.

2. Theoretical framework

2.1 The theoretical framework of tax compliance and tax system

The main theoretical basis of taxation system reform mainly includes three aspects, namely, fair taxation system, optimal taxation system, and fiscal exchange system. Fair taxation originally originated from Henry Simons (1938). In Simons' view, the key to achieving the government's double objective taxation method of fairness and efficiency lies in choosing an appropriate tax base. Therefore, based on the research results of Haig (1921) and Schanz (1896), he conceived the concept of comprehensive income and comprehensive tax base. The basic ideas of fair taxation mainly include the following four aspects: First, fair taxation is mainly proposed for the utilitarian framework sacrifice theory, emphasizing the realization of horizontal fairness through taxation, while vertical fairness can be solved through political procedures; secondly, It is advocated that taxation issues should be discussed separately from government expenditure policies; third, the basic guiding principle of fair taxation is the comprehensiveness of the tax base and the unity of tax treatment; fourth, the theory advocates taxation according to taxation capacity, but the size of taxation capacity Not to be measured by utility theory. Simons opposed utility analysis and proposed his own method of measurement. Different from the perspective of fair taxation theory, the optimal taxation theory seeks a fair entry point from the tax system. Frank Ramsey (Ramsey, 1927), James Millis (Mirrlees, 1971), Peter Diamond, and Mirrlees (Diamond, Mirrlees, 1971) in Edgeworth and Pigou's modern welfare economics The contemporary optimal taxation theory was established on the basis of, and the optimal taxation theory is based on the efficiency of resource allocation and the fairness of income distribution to analyze the construction of an economically reasonable tax system structure. The theory of optimal taxation studies three issues, one is the collocation of direct tax and indirect tax, the other is to find the optimal commodity tax based on a specific efficiency and fairness, and the third is to assume that the income system is suitable for income taxation rather than Based on commodity taxation, the problem is to determine the degree of progressive (or regressive) in order to achieve both fairness and efficiency. The fiscal exchange theory adds new attributes to taxation from the perspective of exchange, providing a theoretical basis for improving tax compliance. The theory of fiscal exchange originated from Wicksell's voluntary exchange theory of finance (Wicksell, 1896) and Buchanan's (1976) modern research results on this traditional theory. Wicksell (1896) The "Financial Theory Research" in the monograph envisages the design of a "fair" tax system. The theory of this "fair" tax system is the application of marginal utility theory in the public sector. He believes that taxation is carried out on individuals or interest groups through political procedures. For distribution, it should be obtained that the marginal utility paid by the state to individuals is equal to the marginal utility of the wealth lost by individuals due to taxation. From another perspective, taxpayers reach a kind of participation in each category based on their pairing of the number of common goods and the tax share. The agreement accepted by all.

2.2 The theoretical framework of tax compliance and behavioral finance

The research on the theoretical model of tax compliance can be traced back to 1972. Allingham (Mich. G Allingham) and Sandham (Angar Sandom) are based on the 1944 Von Neumann (Von Neumann) and Morgenstern (Morgenstern) and others. The AS model, the tax evasion model proposed by the theory of expected utility, analyzes the relationship between tax rate, inspection rate and tax evasion. There is a negative relationship between tax evasion and inspection rate and fine rate, while the relationship with tax rate is uncertain. This is also the earliest manifestation of behavioral economics in finance, and it provides a new paradigm for the study of taxation behavior in the field of finance, that is, the impact of taxpayers' behavioral elements on fiscal revenue and expenditure. Then Yitzaki (1976) modified the assumptions on the basis of the AS model, and included the penalty rate into the model to study the mathematical model of tax evasion by taxpayers, forming the ASK model; in 1986, Reingaum and Wild compared the first two Assuming that the tax audit remains unchanged, the

changes in audit elements are transformed into audit probability, and the audit probability is used as a function of taxpayer's declared income to form a game model of audit probability. This model helps to analyze taxpayers and taxation agencies. This model can be used to predict and analyze the tax compliance degree of taxpayers, and to provide effective audit strategies for the collection and management agencies. However, the above two models are based on the assumption that the expected utility is completely rational and people pursue the maximization of their own interests. Although they can provide a certain research perspective on taxation behavior, they fail to explain the altruistic and moral behavior of taxpayers. . Therefore, in 1979, Kahneman and Tversky introduced experimental psychology and cognitive psychology into the field of economics. The biggest difference from traditional economics is that they put forward the hypothesis of "bounded rational man" and formed the theoretical basis of behavioral finance-prospect theory. Prospect theory introduces weight function and value function based on the assumption of bounded rational person, analyzes people's taxation expectations and risk preference, and obtains the factors that affect taxation compliance. And the use of the "reference point" idea is a good explanation for the difference between people's tax compliance and mainstream economic expectations. However, in the field of finance, due to the policy orientation, it is found that different policy expression methods and publicity forms will also make tax compliance inconsistent, which is in line with the framework effect in behavioral economics. In 2003, Mccaffery and Slemrod used the disintegration effect in the frame effect to explain that people's compliance with the decomposed small tax was significantly higher than the large tax. The framing effect was first proposed by Kahneman and Tversky, winners of the 2002 Nobel Prize in Economics, in 1981. It refers to the same problem, using different expressions, it will affect people's views on the problem, and then affect people's tax decision. People's cognition of problems mainly comes from factors such as intuitive experience and reference points of psychological choices. Relative to the reference point, "gain" will bring happiness, and "loss" will bring pain. And because of the existence of loss aversion, people are more sensitive to the same loss than the same gain. This is one of the main reasons for the existence of the framework effect. At the same time, the psychological account in the isolation effect is that people divide the financial funds they disagree with into different financial uses, and these funds do not exchange with each other, which is reflected in people's psychological tax psychological accounts set up by people psychologically, which explains people The compliance rate for earmarked funds is higher than the compliance rate for uniform taxation, which also provides a new reference for tax authorities to formulate tax collection and management strategies.

3. Analysis of the status quo of tax compliance in the reform

The three main links of tax system reform are tax system design, tax execution, and tax supervision. Tax system design is the basis for tax execution and supervision, and tax execution and supervision are effective ways to ensure the real implementation of tax system design. Every aspect of the reform of the tax system will have a profound impact on tax compliance. For taxpayers, whether the tax reform has reduced tax burdens and tax costs, effectively guarantees fairness, and whether the utility of public products provided by the government exceeds the utility of tax payable, will affect the voluntary compliance and system of taxpayers Comply. For tax collection and administration departments, it is mainly reflected in the service awareness, tax publicity, audit inspection rate, and collection and management costs in the implementation and supervision of the tax system. It is also the system and technical compliance that affects taxpayers' tax payment. For government administrative agencies, the statutory tax system will impose institutional constraints on the behavior of both parties, affecting tax compliance.

3.1 The complexity of tax system design affects tax compliance

The design of tax points, tax rates and levels, tax system structure and even tax collection procedures will affect tax revenue and tax compliance. In my country's current tax system structure, there are both direct tax and indirect tax, as well as turnover tax and income tax, forming a tax structure with equal emphasis on income tax and turnover tax. On the one hand, for taxpayers, taxpayers, especially

corporate taxpayers, not only have to declare corporate income tax on their own, but they also need to perform withholding and payment obligations to pay value-added tax, consumption tax, and personal income tax. In addition, multiple tax incentives are in parallel, as are regional, link, industry, and staged preferential policies. Enterprises will seek third parties for tax planning, and the increase in additional tax costs will also reduce tax compliance. It must not be ignored that the complexity and differences of the tax system also give companies opportunities for tax evasion. On the other hand, for tax administration agencies, a complex tax system will also increase the cost of tax administration, especially for different types of tax incentives. Tax agencies need to check one by one during the audit process, which will not only increase the time cost but also affect Collection and management efficiency. In this respect, it will also affect the taxation compliance of the tax authorities, and thus the overall tax compliance.

3.2 The form and frequency of tax system implementation affect tax compliance

The tax system is the basis for the formation of tax revenue, and the implementation of the tax system is an important tool for the real realization of tax revenue. In the implementation of the tax system, the language expression, the form of publicity, the form of declaration, and the frequency of adjustment will all affect the level of tax compliance. For example, the adjustment of the 2019 Personal Income Tax Law, a combination of classification and integration, prepayment and settlement. Not only has the taxpayer's expectation increased from the scope of deduction, but also the tax amount is broken down into each period for prepayment, which reduces the taxpayer's tax loss aversion. In addition, the "tax rebate wave" in 2020 has greatly promoted taxpayers' tax compliance, and taxpayers regard the refunded tax as income, which will greatly increase the sense of gain for taxpayers and replace the pain caused by tax payment. This phenomenon perfectly fits the "reference dependence" in the previous theory. Under bounded rationality, taxpayers have different attitudes towards gain preference and loss aversion, which is reflected in the psychological changes in tax compliance of tax payment and tax rebate behavior in personal tax. For the same tax amount, choosing the form of gain can promote tax compliance more than the form of loss. Furthermore, under the framework theory, the frequency of changes in tax adjustments will also affect tax compliance. Taxpayers' "comfort with status quo deviations" have a negative attitude towards changes in the tax system, and tax authorities' "collection and management costs" will also affect tax compliance. Generally speaking, the more frequent changes in the tax system, the lower the tax compliance will be. At present, my country's taxation system is in a period of reform. 12 taxes have been enacted, and the remaining six are the main tax revenues, mainly indirect taxes. During the transition period from indirect tax to direct tax, there are many types of tax incentives, a wide range of tax adjustments, frequent tax adjustments, and the transformation of tax declaration from the traditional model to the digital economy, tax compliance will face more tests.

3.3 The intensity of tax supervision and fairness needs affect tax compliance

The transparency of the tax system, tax inspections, audits, and fairness of penalties will all affect the level of tax compliance. From the perspective of taxpayers, the prospect theory believes that taxpayers' rationality is limited and they are easily affected by psychological and social factors when making decisions. Research on tax evasion has shown that most tax evasion is due to taxpayers' feeling The tax burden is too heavy and it is psychologically difficult to accept the reality of giving a "big cake" to others. Taxation practice has proved that excessive tax burden is not conducive to making the "cake" bigger, and it will also distort taxpayers' conscious taxation psychology and aggravate tax evasion. At present, the tax burden of various income classes in my country is relatively unbalanced. Although the personal tax in 2019 will help expand the middle-income group, it has almost no impact on the income adjustment of the low-income class, and there are significant differences between urban and rural areas. Compliance is low. Furthermore, the tax burden of enterprises is heavy, the tax burden of high-income groups is relatively low, the proportion of direct taxes is low, and the proportion of indirect taxes is high. That is, taxpayers pursue fairness in tax burden. From the perspective of tax authorities, according to a survey by scholars (Liang Junjiao, 2006), the tax compliance rate under

the light tax and strict control mode is much higher than the tax compliance rate under the heavy tax loose control mode. The advantage of light tax and strict control is that the tax burden is lighter, and it will not cause too much restriction on the self-demand of taxpayers. The strict collection and management system will force the taxpayer's self-coordination mechanism to weigh the pros and cons and tend to obey the decision. The tax authority's supervision and fairness of punishment are also factors that affect tax compliance.

4. The path choice for improving tax compliance

4.1 Based on prospect theory-simplified tax system

From the perspective of tax system design, reference and dependence enable citizens to pay more taxes in comparison with the payment of people around them, pay more attention to the gains and losses of their own interests, and will not link taxation behavior with national economic development and social stability and progress. If taxpayers feel that it is unfair, they will have a willingness to pay taxes. On the contrary, if taxpayers feel that the tax system is fair, most people will comply, which will lead to a herd mentality and pay taxes in full and on time. At the same time, loss aversion is also an aspect that needs to be paid attention to in the process of formulating the tax system. When formulating tax laws and regulations, relevant departments should pay attention to the size of the highest marginal tax rate. Citizens often link their tax burden to the highest marginal tax rate due to their lack of knowledge and knowledge of taxation skills. A higher marginal tax rate will make people think that the tax burden is too high and the tax pain will be further increased. Therefore, the government is formulating or revising In tax law, we must focus on cultivating tax sources and broaden the tax base instead of easily raising the highest marginal tax rate.

4.2 Based on the framework effect-the certainty of the tax system

From the perspective of the implementation process of the tax system, the framework effect requires the government and related agencies to pay more attention to the economic and social background, adopt appropriate language expressions, and stand in the perspective of equality between the taxpayers and taxpayers, so that taxpayers can think that tax payment can obtain considerable benefits and make decisions psychologically With feasibility and executive power, tax system decisions will be supported and supported by more people, and tax compliance will increase accordingly. At the same time, the government and its related departments must abide by certain guidelines when adjusting the tax system, make full use of the framework effect, and pay attention to policy wording and order of expression. Adhere to the "separate release" of good news, package release of bad news, release big good news and small bad news together, and release big bad news and small good news separately, change the taxpayer's mental account reference point setting and break The original deviation from the status quo will improve taxpayers' tax compliance, structurally reduce the tax pain of citizens, and improve taxpayers' tax compliance. Furthermore, the taxation system should be upgraded to a legal perspective, reduce the frequency of tax adjustments, speed up the pace of taxation statutory, institutionally restrict the behavior of both parties, and increase the awareness of tax compliance.

4.3 Based on the endowment effect and the fairness of the mental account-tax system

The mental account theory requires the government to further increase the tax repayment under the pre-tax deduction and prepayment system in the specific tax system design process. Because the so-called "tax rebate" will make people psychologically use as additional benefits, enhance people's sense of identity, and help improve tax compliance. On the contrary, the behavior of "paying up taxes" will cause people to lose aversion, turn taxpayers into risk-preferences, and breed tax evasion and tax evasion. Therefore, increasing the proportion of prepayment and increasing the amount of prepayment can help increase taxpayers' taxation awareness and thus increase tax compliance. In addition, the endowment effect and loss aversion theories require the government and relevant departments to formulate complete penalties for violations and compliance rewards. It is necessary for companies or individuals with high compliance to experience the rewards of credit, and at the

same time, tax ethics will be formed to a certain extent to encourage or promote the improvement of tax compliance. At the same time, the government and relevant departments have done a good job in the disclosure of information, regularly disclose the taxpayer's tax payment and payment process, standardize tax preferential policies, and achieve timely and transparent tax refunds, and gradually achieve tax inspections, supervision and public disclosure, and improve fiscal transparency. Enhance the trust between taxpayers and tax authorities. At the same time, in the context of big data, broaden channels to increase citizens' participation in relevant taxation supervision and inspection, enhance citizens' sense of ownership, and increase taxpayers' voluntary and loyal compliance.

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